

COMMISSIONERS
JEFF HATCH-MILLER - Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES



ARIZONA CORPORATION COMMISSION

DATE: May 9, 2006
DOCKET NO.: W-02255A-05-0678
TO ALL PARTIES:

AZ CORP COMMISSION
DOCUMENT CONTROL

2006 MAY -9 A 9:48

RECEIVED

22

Enclosed please find the recommendation of Administrative Law Judge Marc E. Stern. The recommendation has been filed in the form of an Order on:

YARNELL WATER IMPROVEMENT ASSOCIATION, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

MAY 18, 2006

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for Open Meeting to be held on:

MAY 31 AND JUNE 1, 2006

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 JEFF HATCH-MILLER, Chairman
4 WILLIAM A. MUNDELL
5 MARC SPITZER
6 MIKE GLEASON
7 KRISTIN K. MAYES

8 IN THE MATTER OF THE APPLICATION OF
9 YARNELL WATER IMPROVEMENT
10 ASSOCIATION, INC. FOR A PERMANENT RATE
11 INCREASE.

DOCKET NO. W-02255A-05-0678

DECISION NO. _____

ORDER

9 Open Meeting
10 May 31 and June 1, 2006
11 Phoenix, Arizona

12 **BY THE COMMISSION:**

13 On September 26, 2005, Yarnell Water Improvement Association, Inc. ("Applicant" or
14 "Company") filed with the Arizona Corporation Commission ("Commission") an application for a
15 permanent rate increase in its water rates and charges.

16 On October 26, 2005, pursuant to A.A.C. R14-2-103, the Commission's Utilities Division
17 ("Staff") issued a notice of deficiency with respect to the Company's rate application.

18 On November 14 and December 8, 2005, the Company filed amendments to its rate
19 application.

20 On January 9, 2006, pursuant to A.A.C. R14-2-103, Staff issued a notice of sufficiency and
21 classified the Company as a Class D utility.

22 On March 27, 2006, Staff filed its report, recommending that the proposed rate increase filed
23 by the Company be denied.

24 * * * * *

25 Having considered the entire record herein and being fully advised in the premises, the
26 Commission finds, concludes, and orders that:

FINDINGS OF FACT

27 1. Pursuant to authority granted by the Commission, Applicant is an Arizona non-profit
28 corporation engaged in the business of providing water service in an area approximately 30 miles

1 southwest of Prescott in Yavapai County, Arizona.

2 2. Applicant's present rates and charges for water were approved in Decision No. 63506
3 (March 30, 2001).

4 3. On September 26, 2005, the Company filed an application requesting authority to
5 increase its rates and charges for water service.

6 4. Applicant provided notice to its customers of its proposed rate increase by first class
7 U.S. mail and, in response thereto, one written protest has been received by the Commission
8 opposing Applicant's proposed increase.

9 5. On January 26, 2006, Staff filed notice that the Company's rate application had met
10 the Commission's sufficiency requirements pursuant to A.A.C. R14-2-103.

11 6. During the test year ended December 31, 2004 ("TY"), Applicant served 521 metered
12 customers, the majority of which are residential users who are served by 5/8" x 3/4" meters.

13 7. Average and median water usage by residential users during the TY were 4,307 and
14 2,208 gallons per month, respectively.

15 8. Staff conducted an investigation of Applicant's proposed rates and charges for water
16 service and filed its Staff Report on the Company's rate application request on March 27, 2006 and is
17 recommending that the Company's proposed rate increase be denied, that the Company's service line
18 and meter installation charges be increased and its other service charges remain basically unchanged
19 because the Company failed to provide adequate information to support its proposed increases.

20 9. The water rates and charges for Applicant at present, as proposed in the Application
21 and as recommended by Staff (to continue the Company's present rates) are as follows:

	Present Rates	Proposed Rates Company	Staff
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$21.00	\$22.00	\$21.00
3/4" Meter	21.00	22.00	21.00
1" Meter	35.00	36.00	35.00
1 1/2" Meter	70.00	75.00	70.00
2" Meter	112.00	117.00	112.00
3" Meter	21.00	215.00	210.00

1	4" Meter	350.00	355.00	350.00
2	6" Meter	700.00	705.00	700.00
3	Gallons Included in Minimum	0	0	0
4	Gallonage charge per 1,000 gallons			
5	0 to 5,000 gallons	2.50	2.75	2.50
6	5,001 to 10,000 gallons	3.50	4.00	3.50
7	10,001 to 50,000 gallons	4.75	5.50	4.75
8	all gallonage over 50,000 gallons	6.00	7.00	6.00
9	<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u>			
10	(Refundable pursuant to A.A.C. R14-2-405)			
11	5/8" x 3/4" Meter	\$455.00	\$600.00	\$520.00
12	3/4" Meter	515.00	660.00	600.00
13	1" Meter	590.00	735.00	690.00
14	1 1/2" Meter	820.00	965.00	935.00
15	2" Meter	1,380.00	1,525.00	1,525.00
16	3" Meter	1,935.00	2,080.00	2,080.00
17	4" Meter	3,030.00	3,175.00	3,175.00
18	6" Meter	5,535.00	5,680.00	5,680.00
19	<u>SERVICE CHARGES:</u>			
20	Establishment	\$40.00	\$40.00	\$40.00
21	Establishment (After Hours)	60.00	60.00	60.00
22	Reconnection (Delinquent)	40.00	50.00	40.00
23	Meter Test (If Correct)	30.00	35.00	30.00
24	Deposit	70.00	75.00	70.00
25	Deposit Interest	6.00%	4.00%	*
26	Reestablishment (Within 12 Months)	**	**	**
27	NSF Check	25.00	30.00	25.00
28	Deferred Payment (Per Month)	0.00%	0.00%	0.00%
29	Meter Reread (If Correct)	10.00	15.00	10.00
30	Late Fee (per month)	n/a	5.00	***

* Per Commission rule A.A.C. R-14-2-403(B).

** Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

*** 1.50% of unpaid monthly balance.

10. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined to be \$164,852 which is the same as its original cost rate base. The Company's FVRB reflects an increase by Staff of Applicant's proposed FVRB due in large part to an increase in Applicant's Net

1 Plant of \$118,524 and an increase in working capital of \$21,101.¹

2 11. Staff decreased Applicant's TY operating expenses by \$48,957 primarily due to
3 adjustments which decrease the following Company expenses: \$11,702 for chemicals; \$37,260 for
4 depreciation expense; and \$8,400 for taxes other than income. Portions of the Company's TY
5 operating expenses were also reclassified.

6 12. Applicant's present water rates and charges produced operating revenues of \$220,300
7 and adjusted operating expenses of \$159,967 which resulted in operating income of \$60,333 during
8 the TY or a 36.60 percent rate of return on FVRB.

9 13. The water rates and charges Applicant proposed would produce operating revenues of
10 \$245,476 and adjusted operating expenses of \$159,967 resulting in net operating income of \$85,509
11 or a 51.87 percent rate of return on FVRB.

12 14. Staff is recommending that the water rates and charges of the Company remain
13 unchanged because the Company is a non-profit corporation and because Applicant's existing rates
14 provide it with sufficient operating income to amply meet its previously approved level of debt.

15 15. Applicant's proposed rate schedule would increase the average monthly customer
16 water bill by 6.5 percent, from \$31.77 to \$33.84, and the median monthly customer water bill by 5.8
17 percent, from \$26.52 to \$28.07.

18 16. Staff's recommended rates would continue the average monthly customer water bill at
19 \$31.77 and continue the median monthly customer water bill at \$26.52.

20 17. According to the Staff Report, Applicant is in compliance with its Commission
21 compliance action filings and prior Commission Orders. Additionally, according to Staff, Applicant
22 is current on the payment of its property taxes and its sales taxes, is providing water which meets the
23 requirements of the Safe Drinking Water Act and its water sources are well below the new arsenic
24 standard of 10 parts per billion.

25 18. The Company has previously filed its Curtailment Tariff with the Commission.

26 19. According to the narrative review by Staff, Applicant is not maintaining its books and
27

28 ¹ Staff's overall adjustment to rate base was \$722,519, a substantial portion of which consisted of the removal of
\$131,402 in accumulated depreciation and the removal of contributions in aid of construction of \$653,995.

1 records in conformance with the National Association of Regulatory Utility Commissioners
2 ("NARUC") Uniform System of Accounts.

3 20. According to Staff, the Company is currently charging a "Back Flow Fee" for the cost
4 of having an individual inspect customers' back flow prevention devices. Staff stated that this fee is
5 not included in the Company's current tariff and charges were paid directly to the third-party
6 inspector. Further, Staff indicated that the funds paid to the inspector have been minimal.

7 21. Based on the Engineering Report attached to the Staff Report, Staff found that the
8 Company reported pumping 31,901,000 gallons of water during the TY, but selling only 24,628,100
9 gallons of water which equates to a water loss of over 22.8 percent which exceeds Staff's
10 recommended level of 10 percent or less.

11 22. Aside from recommending no change in the Company's rates and only minor changes
12 to Applicant's service line and meter installation charges, Staff is additionally recommending that the
13 Commission order the following:

- 14
15 • that Applicant notify its customers of the water rates and charges approved hereinafter
16 and their effective date by means of an insert in its next monthly billing and file a copy
17 of the notice sent to its customers with the Compliance Section of the Utilities
18 Division ("Compliance Section");
- 19 • that Applicant file, within 30 days of the effective date of this Decision, as a
20 compliance item in this docket, with the Commission's Docket Control, a copy of the
21 schedule of its approved rates and charges;
- 22 • that the Company adopt the use of the NARUC Uniform System of accounts and file,
23 within 90 days of the effective date of this Decision, with Docket Control, as a
24 compliance item in this docket, an affidavit which confirms the use of the NARUC
25 Uniform System of Accounts;
- 26 • that the Company adopt the depreciation rates delineated in Exhibit 4 of the
27 Engineering Report attached to the Staff Report on a going forward basis;
- 28 • that the Company file, by December 31, 2006, with Docket Control as a compliance
item in this docket, a detailed plan demonstrating how the Company will reduce its
water loss to less than 15%. Water loss shall be reduced to less than 15% before the
Company files its next rate case. In addition, concurrent with the Company filing its
next rate case, it must file a plan to reduce its water loss to less than 10%. If the
Company finds that reduction of water loss to less than 10% is not cost-effective, the
Company shall submit, before filing its next rate case, a detailed cost analysis and

1 explanation demonstrating why water loss reduction to less than 10% is not cost
2 effective;

- 3 • that the Company cease charging back flow fees; and
- 4 • that Applicant, in addition to the collection of its regular rates and charges, collect
5 from its customers their proportionate share of any privilege, sales, or use tax as
6 provided for in A.A.C. R14-2-409(D).

7 23. Because an allowance for the property tax expense of Applicant is included in the
8 Company's rates and will be collected from its customers, the Commission seeks assurances from the
9 Company that any taxes collected from ratepayers have been remitted to the appropriate taxing
10 authority. It has come to the Commission's attention that a number of water companies have been
11 unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers,
12 some for as many as twenty years. It is reasonable, therefore, that as a preventive measure the
13 Company shall annually file, as part of its annual report, an affidavit with the Utilities Division
14 attesting that the company is current in paying its property taxes in Arizona.

15 24. Under the circumstances, we shall adopt Staff's recommendation to deny the rate
16 increase and order the Company to continue to charge its present rates for water usage with minor
17 changes to its service line and meter installation charges. We also concur with Staff's additional
18 recommendations and shall order their adoption hereinafter.

19 CONCLUSIONS OF LAW

20 1. Applicant is a public service corporation within the meaning of Article XV of the
21 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

22 2. The Commission has jurisdiction over Applicant and the subject matter of the
23 application.

24 3. Notice of the application was provided in the manner prescribed by law.

25 4. Under the circumstances discussed herein, the rates and charges for Applicant as
26 authorized hereinafter are just and reasonable and should be approved without a hearing.

27 5. Staff's recommendations, as set forth in Findings of Fact No. 22, are reasonable and
28 should be adopted.

6. The Applicant should comply with Staff's recommendations as set forth in Findings of Fact No. 22.

7. Based on our findings and in light of Staff's recommendations, no hearing is necessary.

ORDER

IT IS THEREFORE ORDERED that Yarnell Water Improvement Association, Inc. is hereby directed to file on or before June 30, 2006, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	\$21.00
3/4" Meter	21.00
1" Meter	35.00
1 1/2" Meter	70.00
2" Meter	112.00
3" Meter	210.00
4" Meter	350.00
6" Meter	700.00

Gallonge Charge Per 1,000 Gallons

0 to 5,000 gallons	\$2.50
5,001 to 10,000 gallons	3.50
10,001 to 50,000 gallons	4.75
all gallonage over 50,000 gallons	5.00

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

5/8" x 3/4" Meter	\$520.00
3/4" Meter	60.00
1" Meter	690.00
1 1/2" Meter	935.00
2" Meter	1,525.00
3" Meter	2,080.00
4" Meter	3,175.00
6" Meter	5,680.00

...

...

...

SERVICE CHARGES:

Establishment	\$40.00
Establishment (After Hours)	60.00
Reconnection (Delinquent)	40.00
Meter Test (If Correct)	30.00
Deposit	70.00
Deposit Interest	*
Reestablishment (Within 12 Months)	**
NSF Check	25.00
Deferred Payment (Per Month)	0.00%
Meter Reread (If Correct)	10.00
Late Fee (per month)	***

* Per Commission rule A.A.C. R-14-2-403(B).

** Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

*** 1.50% of unpaid monthly balance.

IT IS FURTHER ORDERED that Yarnell Water Improvement Association, Inc. shall notify its customers of the water rates and charges approved hereinafter and their effective date by means of an insert in its next monthly billing and file a copy of the notice when sent to its customers with the Compliance Section of the Utilities Division.

IT IS FURTHER ORDERED that the above water rates and charges shall be effective for all service provided after July 1, 2006.

IT IS FURTHER ORDERED that Yarnell Water Improvement Association, Inc. is hereby directed to comply with Staff's recommendations as set forth in Findings of Fact No. 22.

IT IS FURTHER ORDERED that Yarnell Water Improvement Association, Inc. shall file, within 30 days of the effective date of this Decision, a copy of the schedule of its approved rates and charges.

...

...

...

...

...

...

1 IT IS FURTHER ORDERED that Yarnell Water Improvement Association, Inc. shall
 2 annually file as part of its annual report, an affidavit with the Utilities Division attesting that the
 3 Company is current in paying its property taxes in Arizona.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6
 7
 8
 9 CHAIRMAN

COMMISSIONER

10
 11
 12
 13
 14 COMMISSIONER

COMMISSIONER

COMMISSIONER

15
 16 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
 17 Director of the Arizona Corporation Commission, have
 18 hereunto set my hand and caused the official seal of the
 19 Commission to be affixed at the Capitol, in the City of Phoenix,
 20 this ____ day of _____, 2006.

21 BRIAN C. McNEIL
 22 EXECUTIVE DIRECTOR

23 DISSENT _____

24 DISSENT _____

25
 26 MES:mj
 27
 28

1 SERVICE LIST FOR: YARNELL WATER IMPROVEMENT

2 DOCKET NO.: W-02255A-05-0678

3 Tammy Zudell
4 YARNELL WATER IMPROVEMENT ASSOCIATION
5 P.O. Box 727
Yarnell, AZ 85362

6 Christopher Kempley, Chief Counsel
7 Legal Division
8 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

9 Ernest G. Johnson, Director
10 Utilities Division
11 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28